

On the Ethics of Outsourcing

A Philosophical Look at A-76

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What are the financial benefits to the organization and, ultimately, to the customer regarding the benefits of outsourcing in private industry? Does outsourcing improve responsiveness, quality, flexibility, and even provide a better focus on core business functions? For managers in private industry considering the benefits of in-house vs. outsourcing, the answers to these questions weigh heavily when making a decision on whether to outsource. Within government, the guidebook to federal outsourcing is Office of Management and Budget (OMB) Circular A-76, *Performance of Commercial Activities*, Aug 4, 1983, which is in close agreement with these precepts of business and speaks specifically of achieving economy and enhancing the productivity of non-core functions.

Why Ethics?

All of these considerations are wonderfully objective metrics in the world of business and government and greatly facilitate the decision on whether to outsource. However, these considerations are also somewhat cold and lack a humanistic element, especially for those employees who are being outsourced. The plight of the people being laid off is cause to wonder whether other considerations, traditionally omitted from the balance sheet, should be examined — considerations such as *ethics*.

Those who have studied ethics seriously, or have even audited a single college course on ethics know that on that particular subject, no end is in sight, and rarely is there an easy answer. A person

can be buried very quickly under the works of the classical Greeks, and that does not even get you into the last 2,000 years of ethical debate. Although no easy answers emerge, viewing outsourcing from the standpoint of a few ethical concepts is still an interesting undertaking. A disclaimer, however, is first required. The intent of this article is not to provide a definitive answer, but rather a single opinion that will no doubt be subject to much debate.

Do the Ends Justify the Means?

The works of Niccolò Machiavelli are read today more out of curiosity than for any sort of ethical or moral guidance. That is probably a good thing, since Machiavelli believed: *The ends justify the means*. Today, the U.S. culture generally accepts: *The ends do not justify the means*. Further, we have a Bill of Rights and a healthy legal system designed to support that philosophy. However, there do seem to be a few exceptions in our culture, especially in corporate America and increasingly in government, where cost as an *end* is used to justify many decisions.

For example, in order to increase profitability through reduced costs (the *end*), corporations are, among other things, leveraging the use of outsourcing (the *means*). Of course, a corporation would never defend an action by arguing: *The ends justify the means*. Nevertheless, the Machiavellian model is quite visible at times.

Reducing the vast economic complexities and rationale for a corporation's actions to a simple set of *ends* and *means* is certainly not fair. After all, a corpora-

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tion has a legitimate interest in self-preservation, offering competitive prices to its customers, and providing monetary rewards to top managers and those who assume risk by buying the company's stock.

The government has different yet similar motivations. In reality, a vast number of *ends* and *means* are constantly at work. Furthermore, outsourcing is widely accepted in our culture and it must be pointed out that this *end* (reducing costs) has a tendency of improving the econ-

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omy and raising the standard of living for society as a whole. That is a very utilitarian *end* in itself, and most would agree that our economic system has generated amazing results for the majority of participants. Therefore, the *end* is good and generally applauded. A question could still be raised, however, regarding whether alternative *means* could be employed.

When addressing the strategies employed during the Civil Rights movement, Martin Luther King argued: *The*

means we use must be as pure as the ends we seek. As *ends* go, economic prosperity certainly appears to be very pure. Can the wisdom in King's words be used to help us identify *means* that are equally as pure?

Do Unto Others...

The so-called *Golden Rule* continues to play an important role in humanity, not just for people of many religions but also for agnostics and atheists as well. Many believe that "Do unto others as you would have others do to you," is part of

the unwritten social contract under which we live day to day. Most of us are unaware, however, that the *Golden Rule* has been subjected to much tinkering and philosophical debate over the centuries.

Thomas Hobbes, while observing civil war in England and its effects on the general populace 300 years ago, was very concerned about people doing to others as they would have done unto them. Therefore, Hobbes pleaded: "Do *not* do unto others as you would *not* have others do unto you."

Jean Jacques Rousseau took a slightly different approach and argued: "Do good to yourself with as little evil as possible to others."

Immanuel Kant also weighed in by offering his Categorical Imperative that says in effect: "Never treat another human being as a means only, but always also as an end." [There are those *ends* and *means* again!]

Today, our contemporaries such as Stephen Covey continue to beat the drum by urging us to think, *win-win*. Tinkering aside, most of us seem to have an intuitive understanding of what the *Golden Rule* really means.

Are there any practical applications of the *Golden Rule* when it comes to outsourcing in government? For one, the *Golden Rule* can be used to test the purity of our actions, as Martin Luther King might have us do. What if we apply the *Golden Rule* and its variations to the subject of outsourcing? Would the managers who decide to outsource others ever decide to outsource themselves? It is all too clear what their answer would be. It is unclear, however, why the private sector could not make such decisions just as effectively as, and perhaps less expensively than, those managers.

So, where does that leave us? Well in the ideal world, we should be able to adopt the *Golden Rule* and its more recent variations as a construct upon which we base decisions we make. We should be able to ask, "Would I want to be out-

sourced?” or, if pragmatism must prevail, “Under what conditions would I myself accept being outsourced?” and proceed from there.

Economic Justice

Karl Marx will always be a risky reference to use when trying to argue any point within the U.S. Government due to his eternal association with communism. If we can put politics aside for a moment, however, we must recognize that Marx contributed greatly to the advancement of the working class. Marx, of course, was concerned with the capitalist making an unreasonable profit at the expense of the laborer and questioned ethical aspects through his monumental work, *Capital*.

With the rise of child-labor laws, the minimum wage, the 40-hour workweek, Social Security, the Occupational Safety and Health Administration, and a host of other controls and safety nets, many if not most of Marx's concerns have been effectively addressed. Nevertheless, we must keep in mind that the economic benefit of outsourcing is lower costs. Lower costs are attributed to greater efficiency and competition. Savings through competition are often the result of competition among the workforce, thereby driving down salaries and benefits. Thus, as might have been cautioned by Marx over 100 years ago, the economic benefits from outsourcing are often derived from the pockets of the employee.

OMB Circular A-76 establishes federal policy regarding the performance of commercial activities. Basically, this policy recognizes that, in the process of governing, the government should not compete with its citizens. It also recognizes that Americans want “to get their money's worth” and, therefore, it becomes imperative for the government to achieve economy and enhance its own productivity. One cannot argue with these fine goals, and one might be inclined to categorize these *ends* as pure.

For those activities that are not inherently governmental, A-76 briefly walks through the process by which one makes

solicitations, compares cost and performance, and ultimately decides whether an activity should be outsourced. Although personnel considerations are specifically addressed by A-76, those considerations are limited to giving displaced employees training, access to placement programs, and right-of-first-refusal for outsourced jobs. Perhaps not surprisingly, the human costs of outsourcing are not specifically addressed.

What are the human costs? Well that depends on the situation. From a financial perspective, some employees who are forced to take jobs in private industry lose their retirement and health insurance benefits as well as witness a reduction in salary, even after factoring in severance. In addition, some employees experience reduced vacation time, sick leave, and job security. Of course, that is not true for all employees. Some employees are picked up by priority placement, thus retaining their benefits, and some employees actually do better in the private sector. Nevertheless, the fact remains that many displaced federal employees pay a heavy price.

Consider the following. In one analysis of employment covering 1991 and 1992, the Bureau of Labor Statistics (BLS) found that the incidence of coverage for paid sick leave, medical and dental care, and life insurance was higher among public-sector employees than their private-sector counterparts. With respect to retirement income, 90 percent of public employees were covered compared to 54 percent of private employees. More specifically, the BLS found that public employees were more than twice as likely (83 percent) to be covered by a defined-benefit pension plan than their counterparts in the private sector (34 percent). Many other studies offer similar findings. No wonder government employment is often considered a good deal, and no wonder the private sector can, at times, provide services at a lower cost than the government, even after factoring in a reasonable profit.

Alternative Means

If we agree with Martin Luther King, “The means we use should be as pure

as the ends we seek,” and if it is legitimate for us to ask, “Under what conditions would I myself accept being outsourced,” what alternative to the current method might we offer? Recognizing that some employees who are outsourced do poorly, perhaps we could add a filter to the A-76 process.

For example, before determining whether a function would be better performed by the private sector, could we first assess whether the affected employees are likely to be better off or worse off at the outcome of the process, and then proceed based on that finding? Of course, we would not want to create a welfare system for expensive and inefficient federal workers, where guaranteed employment removes all incentive to improve systems and processes. Rather, this is suggesting that consideration should be given as to whether the gains to the government should come at the expense of the hapless federal employee. In other words, there is, in fact, room for middle ground.

In the real world, many considerations must be addressed before making business decisions, and the considerations of A-76 are cost and effectiveness. One can argue that to make business decisions based on the purest sense of ethics, without addressing economics, politics, or related issues, is to forgo necessary pragmatism, and ultimately is self-defeating. However, it does not have to be a case of *either/or*. Maybe ethics should be given a more dignified seat at the table, where the human costs of outsourcing are given thoughtful consideration. What if we went for a *win-win* and challenged ourselves to outsource only when the displaced employees also benefited in the process? We might be pleasantly surprised by the outcome.

Alas! Even if we so desired, neither the Department of Defense nor the individual program manager has any authority to change the A-76 process.

Editor's Note: The author welcomes questions or comments on this article. Contact him at BreslinDA@navsea.navy.mil.